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By email only to [connections@ofgem.gov.uk](mailto:connections@ofgem.gov.uk)

8 May 2014

Dear James

### **Stakeholder Engagement Incentive reward consultation**

Thank you for the opportunity to provide comments on the above consultation letter dated 27 March 2014. This letter should be regarded as a consolidated response on behalf of UK Power Networks' three distribution licence holding companies: Eastern Power Networks plc, London Power Networks plc, and South Eastern Power Networks plc. Our comments are not confidential and can be published via the Ofgem website.

Our responses to your specific questions are as follows:

**1. Do you consider that companies should meet a threshold level of performance before they are entitled to receive a reward? If so, what should the threshold score be and why?**

We believe that the threshold that should be met is for the licensee to have passed the initial scrutiny of Ofgem and to have made to the scrutinised by the panel. However we understand that to then receive a low score from the panel and to receive a reward for this does not send out the right signals or drive the correct behaviour. Accordingly we believe that a score of 3 is an appropriate level to set as the minimum score to receive a reward as anything higher may dis-incentivise participants (this is not illustrated by any of the options in your consultation).

**2. Do you consider that companies should be able to receive their maximum reward for performance above a specified level? If so, what should the maximum reward score be and why?**

We believe that it is unrealistic that the panel would issue a 10 out of 10 score and therefore agree that a maximum reward should be achievable at a score of less than 10. Option C proposes a score of 9 as the level to which a maximum reward is achieved however we feel that a score of 8 (as illustrated by Option B) is more realistic especially bearing in mind the likelihood of increasing expectations from the panel as RIIO-ED1 progresses.

**3. What should the incentive rate be between the threshold score and the maximum reward score?**

Having considered the three options proposed by Ofgem and Ofgem's minded to position we believe that in terms of a model that does not result in a reward for a low score and also does not require a 10 out of 10 score then a modified Option C is the preferred approach. However, as noted in our response to the earlier questions we believe that it should be calibrated such that 3 and 8 are the relevant start/end points.

Finally, in respect of the stakeholder engagement incentive reward being inflated by RPI, we support this as to not do so would be to erode the power of the incentive over time.

We hope that you will find our comments helpful. If you have any questions please do not hesitate to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'K Hutton', written over a light blue horizontal line.

Keith Hutton  
Head of Regulation  
UK Power Networks

Copy: Matt Rudling, Director of Customer Services, UK Power Networks  
Paul Measday, Regulatory Returns & Compliance Manager, UK Power Networks